

**SEATTLE PUBLIC UTILITIES –
SOLID WASTE FUND**

FINANCIAL STATEMENTS FOR THE
YEARS ENDED DECEMBER 31, 2000 AND 1999, AND
INDEPENDENT AUDITORS' REPORT

Deloitte & Touche LLP

INDEPENDENT AUDITORS' REPORT

Director
Seattle Public Utilities – Solid Waste Fund
Seattle, Washington

We have audited the accompanying balance sheets of the Seattle Public Utilities – Solid Waste Fund (the Fund) as of December 31, 2000 and 1999, and the related statements of operations and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of December 31, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

April 6, 2001

SEATTLE PUBLIC UTILITIES – SOLID WASTE FUND

BALANCE SHEETS

DECEMBER 31, 2000 AND 1999

<u>ASSETS</u>	<u>2000</u>	<u>1999</u>
UTILITY PLANT, at original cost:		
Plant in service, excluding land	\$ 21,236,401	\$ 20,513,892
Less accumulated depreciation	<u>(12,599,804)</u>	<u>(12,796,330)</u>
	8,636,597	7,717,562
Construction in progress	8,466,119	4,633,105
Land and land rights	1,587,697	1,587,697
Nonoperating property	<u>2,373,906</u>	<u>2,373,906</u>
	21,064,319	16,312,270
RESTRICTED ASSETS:		
Construction Fund – Cash and equity in pooled investments	2,386,613	4,223,479
Vendor deposits – Cash and equity in pooled investments	<u>30,849</u>	<u>13,808</u>
	2,417,462	4,237,287
CURRENT ASSETS:		
Cash and equity in pooled investments	3,157,090	1,655,993
Accounts receivable, net of allowances for doubtful accounts of \$21,388 and \$86,242	5,845,824	5,915,577
Unbilled receivables	1,050,530	940,776
Due from other City funds	719,340	4,497,960
Due from other governments	1,010,540	1,220,545
Materials and supplies inventory	2,945	13,838
Prepayments and other	<u>13,371</u>	<u>21,718</u>
	11,799,640	14,266,407
DEFERRED CHARGES AND OTHER:		
Unamortized bond issue costs, net	353,022	389,680
Deferred landfill closure and postclosure costs, net	46,536,667	47,244,100
Other deferred charges	<u>968,947</u>	<u>1,175,485</u>
	47,858,636	48,809,265
TOTAL	<u>\$ 83,140,057</u>	<u>\$ 83,625,229</u>

See notes to financial statements.

EQUITY AND LIABILITIES20001999

EQUITY:

Accumulated deficit	\$ (989,983)	\$ (3,407,246)
Contributions in aid of construction	<u>437,991</u>	<u>437,991</u>
	(551,992)	(2,969,255)

REVENUE BONDS:

Revenue bonds, due serially	39,469,304	42,564,304
Less revenue bonds due within one year	(3,249,304)	(3,094,304)
Plus bond discount and premium, net	882,237	958,658
Less deferred charges on advanced refunding	<u>(1,769,049)</u>	<u>(1,975,152)</u>
	35,333,188	38,453,506

NONCURRENT AND OTHER LIABILITIES:

Accrued landfill postclosure costs, net of current portion	30,657,913	30,016,128
Advances from other funds		520,000
Claims payable – Noncurrent	334,026	300,396
Vendor deposits payable	<u>29,627</u>	<u>15,847</u>
	31,021,566	30,852,371

CURRENT LIABILITIES:

Accounts payable	4,824,797	5,018,008
Accrued payroll and payroll taxes payable	354,700	454,874
Accrued taxes payable	188,135	294
Compensated absences payable	1,145,348	814,241
Due to other City funds	2,945,345	4,216,686
Claims payable – Current	96,559	136,935
Revenue bonds due within one year	3,249,304	3,094,304
Accrued interest payable	805,465	887,326
Accrued landfill closure and postclosure costs	1,515,856	971,153
Deferred credits	1,691,786	1,694,786
Other	<u>520,000</u>	
	<u>17,337,295</u>	<u>17,288,607</u>

TOTAL

\$ <u>83,140,057</u>	\$ <u>83,625,229</u>
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SEATTLE PUBLIC UTILITIES – SOLID WASTE FUND

STATEMENTS OF OPERATIONS

YEARS ENDED DECEMBER 31, 2000 AND 1999

	<u>2000</u>	<u>1999</u>
OPERATING REVENUES:		
Direct service	\$ 50,147,568	\$ 48,538,410
Other	<u>36,273,618</u>	<u>35,370,678</u>
	86,421,186	83,909,088
OPERATING EXPENSES:		
Solid waste collection	42,089,744	43,452,504
Resource management	7,580,890	5,296,101
Field operations	6,479,934	6,502,130
Engineering services	372,722	252,396
Customer services	3,126,640	3,092,006
General and administrative	7,393,568	7,334,399
City business and occupation taxes	8,713,230	9,552,771
Other taxes	2,424,982	2,340,089
Depreciation and amortization	1,768,506	1,913,165
Amortization of landfill and postclosure costs	<u>3,108,952</u>	<u>3,198,921</u>
	<u>83,059,168</u>	<u>82,934,482</u>
Net operating income	3,362,018	974,606
OTHER INCOME (EXPENSES):		
Investment and interest income	573,392	259,312
Interest expense	(1,930,913)	(1,960,798)
Amortization of debt expenses	(166,341)	(97,171)
Operating grant income	641,605	648,869
Gain (loss) on sale of capital assets	(78,771)	381,447
Other, net	<u>16,273</u>	<u>696,176</u>
	<u>(944,755)</u>	<u>(72,165)</u>
NET INCOME	2,417,263	902,441
ACCUMULATED DEFICIT:		
Beginning of year	<u>(3,407,246)</u>	<u>(4,309,687)</u>
End of year	<u>\$ (989,983)</u>	<u>\$ (3,407,246)</u>

SEATTLE PUBLIC UTILITIES – SOLID WASTE FUND

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2000 AND 1999

	<u>2000</u>	<u>1999</u>
OPERATING ACTIVITIES:		
Cash received from customers	\$ 90,213,338	\$ 84,172,232
Cash paid to suppliers and employees	(69,468,874)	(72,227,876)
Cash paid for taxes	<u>(10,950,371)</u>	<u>(11,372,860)</u>
Net cash provided by operating activities	9,794,093	571,496
NONCAPITAL FINANCING ACTIVITIES:		
Operating grants received	851,610	1,147,384
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from sale of bonds		47,491,357
Payments related to defeasance of bonds		(40,075,696)
Principal payments on revenue bonds	(3,095,000)	(3,835,000)
Capital expenditures and deferred charges	(6,395,789)	(4,253,819)
Interest paid	(2,012,774)	(1,536,218)
Proceeds from sale of land and equipment	<u>3,000</u>	<u>4,179,697</u>
Net cash provided (used) by capital and related financing activities	(11,500,563)	1,970,321
INVESTING ACTIVITIES:		
Interest received on investments	<u>536,132</u>	<u>259,312</u>
NET INCREASE (DECREASE) IN CASH AND EQUITY IN POOLED INVESTMENTS	(318,728)	3,948,513
CASH AND EQUITY IN POOLED INVESTMENTS:		
Beginning of year	<u>5,893,280</u>	<u>1,944,767</u>
End of year	<u>\$ 5,574,552</u>	<u>\$ 5,893,280</u>

SEATTLE PUBLIC UTILITIES – SOLID WASTE FUND

STATEMENTS OF CASH FLOWS *(continued)*
YEARS ENDED DECEMBER 31, 2000 AND 1999

	<u>2000</u>	<u>1999</u>
RECONCILIATION OF NET OPERATING INCOME TO		
NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net operating income	\$ 3,362,018	\$ 974,606
Adjustments to reconcile net operating income		
to net cash provided by operating activities:		
Depreciation and amortization	4,877,458	5,112,086
Change in estimate of risk financing liability, net	(6,746)	327,038
Cash provided (used) by changes in operating assets		
and liabilities:		
Unbilled collection services	(109,754)	(52,115)
Accounts receivable – Collection services	86,026	315,259
Due from other City funds	3,815,880	(3,974,909)
Prepayments and other current assets	19,240	(998,557)
Accounts payable	(193,211)	409,400
Vendor deposits payable	13,780	15,847
Accrued payroll	(100,174)	221,062
Compensated absences payable	331,107	64,740
Due to other City funds	(1,271,341)	851,812
Landfill closure and postclosure costs	544,703	(2,036,743)
Deferred landfill closure and postclosure costs	(1,759,734)	188,666
Unearned revenues and other	<u>184,841</u>	<u>(846,696)</u>
Total adjustments	<u>6,432,075</u>	<u>(403,110)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 9,794,093</u>	<u>\$ 571,496</u>

SEATTLE PUBLIC UTILITIES – SOLID WASTE FUND

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2000 AND 1999

NOTE 1: OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Operations: The City of Seattle, Seattle Public Utilities – Solid Waste Fund (the Fund) is a public utility enterprise fund of the City of Seattle (the City). On January 1, 1997, the City created Seattle Public Utilities (SPU) which brought together under one administrative umbrella the Water, Solid Waste, and Drainage and Wastewater functions of the City as well as certain engineering functions. The Fund (as well as the other funds) remains separate for accounting purposes. SPU receives certain services from other departments and agencies of the City, including some that are normally considered to be general and administrative. The Fund is charged a share of these costs and additionally pays a business and occupation tax to the City's General Fund. Solid waste collection and disposal services provided to other City departments and agencies are at rates prescribed by City ordinances.

Customer service and utility billing are performed by SPU. The cost of this function is shared among SPU's three utility funds (Water, Drainage and Wastewater, and Solid Waste) and Seattle City Light. For the years ended December 31, 2000 and 1999, the Fund paid \$3,126,040 and \$3,092,006, respectively. SPU charged Seattle City Light \$3,322,062 in 2000 and \$2,916,233 in 1999 for the services provided.

The Fund is subject to regulation by the City and the state of Washington. Service rates are authorized by ordinances passed by the City Council. Accounting policies and financial reporting are regulated by the Washington State Auditor's Office, Division of Municipal Corporations, and conform to accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Fund has chosen to apply all pronouncements and interpretations issued by the GASB, as well as those issued by the Financial Accounting Standards Board on or before November 30, 1989, except when they conflict with the GASB.

Basis of accounting: The Fund is accounted for on a flow of economic resources measurement focus. Its financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units using the accrual basis of accounting. With the flow of economic resources measurement focus, all assets and liabilities associated with the Fund's operations are included on the balance sheets. Fund equity (i.e., net total assets) is segregated into contributions from other governments and retained earnings components. The operating statements present increases (revenues) and decreases (expenses) in total assets.

Revenues: Revenues are recorded through cycle billings rendered to customers monthly or bimonthly. Amounts billed but not earned at year end are recorded as unearned revenues. The Fund accrues and records unbilled collection service revenues in the financial statements for services provided from the date of the last billing to year end.

Cash and equity in pooled investments: The City's Executive Services Department – Finance Division invests all temporary cash surpluses for City departments. The department may, at various times, invest these surpluses in certificates of deposit issued by Washington State depositories that participate in a state insurance pool, U.S. Treasury and agency securities, prime bankers' acceptances trading in the secondary market, and repurchase or reverse-repurchase agreements with primary dealers who use authorized

securities as collateral. Delivery of collateral on the underlying securities is required on all repurchase agreement transactions. The Fund is allocated interest income by the City.

It is the City's policy that all investments of the Fund, except repurchase or reverse-repurchase agreements, be held by banks or trust companies as agents of the City and in the City's name. It is the City's policy to hold all investments until maturity. The Fund had no investments at December 31, 2000 and 1999.

The first \$100,000 of bank deposits are federally insured. The Washington State Public Deposit Protection Commission (PDPC) collateralizes deposits in excess of \$100,000. The PDPC is a multiple financial institution collateral pool. There is no provision for the PDPC to make additional pro rata assessments if needed to cover a loss. Therefore, the PDPC protection is of the nature of collateral, not of insurance.

Securities with maturities exceeding three months at time of purchase are reported at fair value on the balance sheets; the net increase (decrease) in the fair value of those investments is reported as part of investment income.

The cash pool operates like a demand deposit account in that all agencies, including the City, can deposit cash at any time and can also withdraw cash out of the pool without prior notice or penalty. Accordingly, the statements of cash flows reconcile to cash and equity in pooled investments plus the cash in escrow held for vendors. Balances on deposits as of December 31 are summarized as follows:

	<u>2000</u>	<u>1999</u>
Cash – Vendor deposits	\$ 30,849	\$ 13,808
Construction Fund	2,386,613	4,223,479
Operating Fund	<u>3,157,090</u>	<u>1,655,993</u>
	<u>\$ 5,574,552</u>	<u>\$ 5,893,280</u>

Utility plant: Costs of additions to utility plant are capitalized. Costs include direct materials, labor, and indirect costs such as engineering, supervision, payroll taxes, pension benefits, and interest. The cost of current repairs and maintenance is charged to expense, while the cost of improvements is capitalized.

Depreciation: Plant in service is depreciated on the straight-line method over estimated useful lives as follows:

Buildings	50 years
Transfer stations, scalehouses, and related improvements	5 to 33 years
Machinery and equipment	3 to 15 years

It is the Fund's policy to begin depreciation in the year following acquisition and to record a full year's depreciation in the year of disposition.

Property held for sale: In 1990, the Fund purchased 350 acres of land surrounding the Kent-Highlands landfill. A portion of this land will become part of the landfill area, with the excess held for sale. This property is carried at the lower of cost or fair value.

Deferred computer systems costs: The Fund pays for its portion of new computer systems developed by other City departments. Contributions were made to systems to replace the Seattle Financial Management System with a new system (Summit). The new financial system was placed in service in 1999. The amortization expense for this system in 2000 was \$31,880. The Combined Utility Billing System will be put in service in 2001.

Compensated absences: Employees earn vacation based upon their date of hire and years of service and may accumulate earned vacation up to a maximum of 480 hours. Unused vacation at retirement or normal termination is considered vested and payable to the employee. Earned but unused vacation is accrued as a liability of the Fund.

Employees also earn up to 12 days of sick leave per year and may accumulate sick leave balances without limit. Employees are paid 25% of the value of unused sick leave upon retirement. They are not paid for unused sick leave if they leave before retirement. The Fund records a liability for estimated sick leave payments.

Taxes: The Fund is charged a business and occupation tax by the City at a rate of 10% of Fund revenues, net of certain credits. The Fund also is charged two taxes by the City based on solid waste tonnages collected and transferred in the City for disposal. In addition, the Fund pays several state business taxes at various rates.

New accounting pronouncements: In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, effective for the Fund in fiscal year 2003. This statement requires governments to present certain basic financial statements as well as management's discussion and analysis and certain other required supplementary information. The Fund does not anticipate a material impact to the financial position or operations of the Fund as a result of implementing this standard.

Use of estimates: The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements. The Fund used significant estimates in determining reported landfill closure and postclosure costs, unbilled collection services, allowance for doubtful accounts, accrued sick leave, and other contingencies. Actual results may differ from those estimates.

Reclassifications: Certain reclassifications have been made to prior year balances to provide a presentation consistent with the current year.

NOTE 2: UTILITY PLANT

Utility plant, net, at cost, consists of the following at December 31:

	<u>2000</u>	<u>1999</u>
Buildings	\$ 10,361,696	\$ 9,732,965
Machinery and equipment	<u>10,874,705</u>	<u>10,780,927</u>
Total plant in service	21,236,401	20,513,892
Less accumulated depreciation	<u>(12,599,804)</u>	<u>(12,796,330)</u>
	8,636,597	7,717,562
Land	1,587,697	1,587,697
Construction in progress	8,466,119	4,633,105
Nonoperating property	<u>2,373,906</u>	<u>2,373,906</u>
Utility plant, net	<u>\$ 21,064,319</u>	<u>\$ 16,312,270</u>

During 2000 and 1999, the Fund capitalized interest costs relating to construction of \$265,755 and \$270,847, respectively.

NOTE 3: REVENUE BONDS

In February 1999, the Fund issued \$40,900,000 of Solid Waste Revenue Refunding Bonds. The proceeds were placed in trust on February 4, 1999, to satisfy future debt service payments and defease the outstanding Solid Waste Revenue Bonds Series 1989A and 1989B. The defeased bonds were fully refunded in 2000. The outstanding balance of the defeased bonds was \$-0- and \$37,565,000 at December 31, 2000 and 1999, respectively. Defeased bonds are not included in the Fund's outstanding long-term debt since the Fund legally satisfied its obligation through the refunding transactions. A deferred expense of \$2,164,079 was recorded in connection with the defeasance and is being amortized over the lives of the refunded bonds.

In October 1999, the Fund issued \$5,500,000 of Solid Waste Revenue Bonds, with varying principal payments beginning in the year 2000 and ending in 2019, with annual interest rates ranging from 4.75% to 5.90%. Proceeds of the issuance are being used to finance certain capital improvements to the Fund.

Minimum debt service requirements on revenue bonds are as follows:

<u>Year ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2001	\$ 3,250,000	\$ 2,106,748	\$ 5,356,748
2002	3,405,000	1,944,698	5,349,698
2003	3,585,000	1,766,860	5,351,860
2004	3,770,000	1,579,622	5,349,622
2005	3,965,000	1,382,198	5,347,198
Thereafter	<u>21,495,000</u>	<u>4,481,440</u>	<u>25,976,440</u>
	<u>\$ 39,470,000</u>	<u>\$ 13,261,566</u>	<u>\$ 52,731,566</u>

The revenue bonds contain certain financial covenants, the most significant of which requires the Fund to maintain net revenue available for debt service at least equal to 1.25 times annual debt service. Net revenue available for debt service, as defined by the bond covenants, was 3.37 times annual debt service for 2000. Net revenue available for debt service for the year ended December 31, 2000, is determined as follows:

Net income	\$ 2,417,263
Add:	
City occupation tax	8,713,230
Depreciation and amortization	4,877,458
Interest on revenue bonds	2,196,667
Amortization of debt expensed	166,341
Claims and damages claimed but not paid	<u>83,107</u>
	18,454,066
Less:	
Noncash investment fair value adjustment	102,184
Capitalized interest	<u>265,755</u>
	<u>367,939</u>
Adjusted net revenue available for debt service	<u>\$18,086,127</u>
Debt service requirement (cash basis)	<u>\$ 5,373,529</u>
Coverage	3.37

NOTE 4: RETIREMENT PLANS

Pension: All permanent Fund employees are eligible to participate in the Seattle City Employees' Retirement System (the System), a cost-sharing public employee retirement system operated by the City. Benefits vest after five years of covered service. City employees may retire after 30 years of service regardless of age; after age 52, with 20 or more years of service; after age 57, with 10 or more years of service; and after age 62, with five or more years of service. The System also provides death and disability benefits. These benefit provisions and all other requirements are established by City ordinances. The System's financial report that includes financial statements and required supplementary information for the System is available through the City.

City employees are required to contribute 8.03% of their annual base salary to the System. The City's contribution rate was 8.03% as of January 1, 2000 and 1999. Employer rates are established by the City Council on a biannual basis. The Fund's contributions to the System for the years ended December 31, 2000, 1999, and 1998, were approximately \$766,183, \$581,895, and \$599,000, respectively. The Fund's contribution in 2000 represents its full liability to the System.

The System issues stand-alone financial statements which may be obtained by writing to the Seattle City Employees' Retirement System, 801 Third Avenue, Suite 300, Seattle, WA 98104; telephone: (206) 386-1292.

Employer contributions for the City are as follows (dollars in millions):

<u>Year ended December 31,</u>	<u>City required contribution</u>	<u>City actual contribution</u>	<u>Percentage contributed</u>
1998	30.6	\$ 30.6	100 %
1999	29.9	29.9	100
2000	30.8	30.8	100

Actuarial data and assumptions

Valuation date	January 1, 2000
Actuarial cost method	Entry age
Amortization method	Level percent
Remaining amortization period	-0- years
Amortization period	Open
Asset valuation method	Market
Investment rate of return	8.00 %
Projected general wage inflation	4.50 %
Postretirement benefit increases	.67 %

Schedule of funding progress (dollars in millions):

<u>Actuarial valuation date</u>	<u>Actuarial value of assets (a)</u>	<u>Actuarial accrued liabilities (AAL) entry age (1) (b)</u>	<u>Unfunded AAL (UAAL) (2) (b-a)</u>	<u>Funded ratio (a/b)</u>	<u>Covered payroll (3) (c)</u>	<u>UAAL as a percentage of covered payroll ((b-a)/c)</u>
1/1/1998	\$ 1,224.6	\$ 1,266.7	\$ 42.7	96.7 %	\$ 341.5	12.3 %
1/1/1999	1,375.0	1,326.6	(48.4)	103.6	370.4	(13.1)
1/1/2000	1,582.7	1,403.1	(179.6)	112.8	370.4	(48.5)

1. Actuarial present value of benefits less actuarial present value of future normal costs based on entry age actuarial cost method.
2. Actuarial accrued liabilities less actuarial value of assets.
3. Covered payroll includes compensation paid to all active employees on which contributions are calculated.

Deferred compensation: The City offers its employees a deferred compensation plan (the Plan), created in accordance with the Internal Revenue Code (IRC), Section 457. The Plan, available to all City employees, permits employees to defer a portion of their salary until future years. The deferred compensation is paid to employees upon termination, retirement, death, or unforeseeable emergency.

Effective January 1, 1999, the Plan is an eligible deferred compensation plan under Section 457 of the IRC of 1986, as amended, and a trust exempt from tax under IRC Sections 457(g) and 501(a). The Plan is operated for the exclusive benefit of participants and their beneficiaries. No part of the corpus or income of the Trust shall revert to the City or be used for, or diverted to, purposes other than the exclusive benefit of participants and their beneficiaries.

The Plan is not reported in the financial statements of the City or the Fund.

It is the opinion of the City's legal counsel that the City has no liability for investment losses under the Plan. Under the Plan, participants select investments from alternatives offered by the Plan Administrator, who is under contract with the City to manage the Plan. Investment selection by a participant may be changed from time to time. The City does not manage any of the investment selections. By making the selection, participants accept and assume all risks inherent in the Plan and its administration.

NOTE 5: RISK FINANCING LIABILITIES

The City and the Fund are self-insured for certain losses arising from personal and property damage claims by third parties and for casualty losses to the Fund's property. Liabilities for identified claims and claims incurred but not reported have been recorded by the Fund.

At December 31, 1995, the City initiated a program to convert its insurance plan for workers' compensation claims to a cost-reimbursement program. The Fund was not included in the first phase of the program but became a participant in 1996. The liability had formerly been recorded in the City's Industrial Insurance Fund. Until 1999, the City still maintained the liability for estimated incurred but not reported claims. This liability was transferred to the Fund in 1999.

For 2000 and 1999, liabilities for workers' compensation claims as well as other claims are discounted over an eight-year period at the City's rate of return on investments of 6.17% and 5.692%, respectively. Claims expected to be paid within one year were \$96,559 and \$136,935 at December 31, 2000 and 1999, respectively. The schedule below presents the changes in the liability for workers' compensation claims as well as other claims, combined (risk financing liabilities) as of December 31:

	<u>2000</u>	<u>1999</u>
Beginning liability	\$ 437,331	\$ 110,293
Payments	(89,853)	(202,850)
Incurred claims and changes in estimates	<u>83,107</u>	<u>529,888</u>
Ending liability	<u>\$ 430,585</u>	<u>\$ 437,331</u>

NOTE 6: CONTRACTUAL OBLIGATIONS

The City contracts with private companies for the collection of residential garbage, yard waste and recycling. The contracts include certain additional costs related to bulky item collection and backyard service. New residential collection contracts with two private companies were implemented in April 2000. Total payments under the prior and current contracts during 2000 and 1999 were approximately \$20,319,634 and \$22,677,578, respectively. The Fund estimates that the total collection costs of these contracts for 2001 will be approximately \$21,950,000.

In 1990, the City signed a 38-year contract with Washington Waste Systems (WWS) for the disposal of nonrecyclable city waste, including the city's commercial waste collected by two state-franchised haulers. In 1996, the City renegotiated this contract to extend the first date at which it can choose to unilaterally terminate the contract from March 31, 2000, to March 31, 2006. In exchange, WWS agreed to reduce the contract price from approximately \$45/ton in 1996 to \$41.57/ton beginning April 15, 1997, and \$43.70/ton beginning April 2002. In addition, WWS agreed to reduce the price escalator in the contract from 90% of the Seattle-Tacoma CPI to 80%, effective April 15, 1998. The Fund paid WWS approximately \$21,434,807 and \$20,528,280 under this contract in 2000 and 1999, respectively. The Fund approximates these costs to be \$21,680,000 in 2001.

For several years, the City has been in negotiations with the state-franchised haulers that have collected commercial waste in the city to bring them under contract with the City. The negotiations were successful and as of April 1, 2001, commercial garbage is collected under these new contracts. The contracts end March 31, 2008, but the City retains an option to extend the contracts to March 31, 2009, or March 31, 2010. As part of these commercial collection contracts, the City also negotiated a long-term yard waste processing contract with Cedar Grove Composting, Inc. and changes to the disposal contract. The first opt out date on the disposal contract was pushed out from March 31, 2006, to March 31, 2009, for price reductions of \$1.50/ton in 2003, an additional \$1.50/ton in 2005, and a final \$1.50/ton in 2007.

NOTE 7: LANDFILL CLOSURE AND POSTCLOSURE CARE

At December 31, 2000 and 1999, accrued landfill and postclosure costs consist primarily of monitoring, maintenance, and repair costs. It is the City Council's policy to include the Fund's share of all landfill closure and postclosure costs in the revenue requirements used to set future solid waste rates. Therefore, total estimated landfill closure and postclosure care costs are accrued and also reflected as a deferred cost in the accompanying financial statements. These costs are being amortized as they are recovered from rate payers. Actual costs for closure and postclosure care may be higher due to inflation, changes in technology, or changes in regulations.

In prior years, the Fund delivered its refuse to two leased disposal sites: the Midway and Kent-Highlands landfills. Subsequent to signing the original lease agreement, federal and state requirements for closure of landfill sites were enacted. The Fund stopped disposing of municipal waste in the Midway site in 1983 and in the Kent-Highlands site in 1986.

Subsequent to their closing, the Kent-Highlands and Midway landfills were declared Superfund Sites by the federal government. In the same time period, nearby landowners, residents, and the federal and state governments made various claims of damages related to these landfills and sought various forms of relief. These claims have been settled, and the City does not anticipate further actions related to Kent-Highlands and Midway. Any future changes in the accrued landfill liability will be reflected in Fund rates.

In 1996, the City filed suit against various parties that disposed of waste at the Kent-Highlands landfill. In its suit, the City asserted that these parties (according to the Comprehensive Environmental Response, Compensation, and Liability Act) are liable for a portion of the cost of closing the Kent-Highlands landfill. The City completed settlement with the defendants in this suit in December 1997 and has recovered approximately \$2.23 million. The City settled a similar suit relating to the Midway landfill in 1994 and has since recovered \$6.4 million. The City does not anticipate any further legal actions relating to either landfill.